

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION SUBCOMMITTEE SB 439 ON TAXATION

Call to Order: By **SEN. JOHN C. BOHLINGER**, on March 14, 2001 at 11:30 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. John C. Bohlinger (R), Chairman (R)
Sen. Mack Cole (R)
Sen. Dan Harrington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Deb Thompson, Committee Secretary

Please Note: These are summary notes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Subcommittee on HB 439,
3/9/2001
Executive Action: None

SUBCOMMITTEE ON SB 439

Concerns Addressed: Senator Bohlinger distributed three handouts to the subcommittee. The Montana Tourism Coalition, Amy Sullivan; Montana Innkeepers Association, Stuart Doggett; and Montana Department of Commerce, Matthew Cohn, each outlined comments and concerns regarding the increase of the bed tax to 9%.

Senator Bohlinger addressed each concern and invited comments from the members. The first concern, regarding the statutory appropriation issue expressed by the Montana Tourism Coalition, was discussed. Senator Cole felt the 4% should be left as is but the additional percentage should be placed as a statutory appropriation. Statutory appropriation addresses a long term ability to know where the money is. Senator Harrington agreed the 4% should be left as is.

Senator Bohlinger questioned whether the state should specify a dollar amount as programs depend on this. The Legislature could readjust the dollar amount in subsequent years.

The second concern of the Tourism Coalition regards donation to the general fund as they feel the intent is for tourism. The general fund would be assisting state government overall, which was not what the bed tax was designed for.

Funding for K-12 Recommended: Senator Cole recommended specifying the additional tax be earmarked for K-12 education. Senator Harrington said he also recognized the problem in funding for education and would agree with Senator Cole about this position. Senator Cole asked the sponsor to address this possibility on the extra tax money going to K-12.

Senator Grosfield responded that he was unclear about a percentage rather than an actual dollar amount. He pointed out the reason to switch a percentage to a dollar amount. In viewing the history of the bed tax, there has been a dramatic increase in collections. If a percent figure is used in the calculations, the programs will also grow in a dramatic way. These programs are tied to the state appropriation process. There is no legislative oversight on the programs and their increases. He noted it would be responsible fiscal policy to talk about specific areas. An example of this would be the Lewis and Clark Bicentennial. The numbers of people expected are said to be 12 million. That estimate could expand to 20 or 30 million. An analysis should be made to see if those programs need that much money. Specific dollar amounts can be changed by future legislatures. He asked who would win if there were specific dollar amounts. If the extra tax was dedicated to K-12 education, they would benefit - if the money was left in the general fund - the whole state would benefit. As far as earmarking the money to K-12, he had no problem considering that. However, the earmarking issue is not in this bill. The question becomes whether the tax benefit would be included in the general fund or dedicated to K-12. He reminded the subcommittee members that HB 2 addresses funding for K-12, however he agreed they needed more money.

Senator Bohlinger commented that the success of the bill is enhanced if the state specifies additional money to support K-12. He questioned Mr. Cohn regarding the growth in tourism over the past five years. Mr. Cohn replied that the growth of the bed tax was tied to the room rates. If those rates go up, the tax grows. The first five years the fund grew fast. However, the past year the fund grew by 3%. Senator Bohlinger said it was important to understand the concerns that address the percentage allocated to entities. If the percentage grows, this could over fund their efforts.

Advertising Decisions best made by Industry: Mr. Doggett spoke about concerns if the language said "up to" this may fund education, however it would be taking away from tourism. He informed the members that the Tourism Advisory Council meets 3-4 times a year and they best understand marketing. De-earmarking funds that would be going to the council would, in effect, be placing the decision making with those appropriation committee members with no ability in this area, eliminating the private sector from contributing.

Senator Bohlinger pointed out that funding for councils has not been disrupted. Amy Sullivan noted the importance of advertising and this money should not be capped. Senator Grosfield replied this was a good argument. However, the same argument could be made about any state government program. The important point is the funding is made with taxpayer dollars which is appropriate for the Legislature to address.

Senator Grosfield clarified there was a difference between statutory appropriation and earmarking. The example of the Coal Board earmarking which resulted in funds tied to specific projects. The state did not appropriate the funds until the earmarking was changed. However, the bed tax is a state issue. The question of how the appropriation is used without having legislative review is important to consider. He pointed out the bill already has earmarked funds for specific purposes including tourism advertising promotion and money for the tourism regions. The question raised is about the appropriation process.

Fixed dollar amount or percentage: Senator Bohlinger said it appeared the members had a consensus about the 5% being dedicated for K-12 education. They were then wrestling with how to deal with the prior 4% tax. The question to resolve was whether to state in law a fixed dollar amount or tie the amount to a percentage figure. Senator Grosfield pointed out the 4% had been addressed and the totals were still earmarked for the various programs. Mr. Cohn clarified that the regional councils reviewed 289 applications a year for marketing funds. Travel Montana consults with local government and the process continues to be the same.

Senator Harrington commented that the industry had stated they wanted to grow and they should not be hampered. Their use of advertising dollars for tourism will bring in more money and they should not be limited.

Senator Cole pointed out the 4% stays the same. The 5% would be handled differently. Senator Bohlinger noted an additional concern was placing money into the Heritage Program, Cultural Trust, Mainstream Program, Lewis and Clark Bicentennial, Community Heritage Program and local governments, which have not been provided for in the underlying 4%. If they are to be included, they need a process to give them the money. Senator Grosfield pointed to page 6 where this issue is addressed in the bill to provide this money for tourism promotion. Additional thought should be given to allow for increases so they would not be stuck at this level, as the money does grow over time. Since the tourism industry will increase, he would like to deal with a dollar number. If the subcommittee wants to use a percentage, then tie it to the growth rate, this may be a solution.

Senator Bohlinger talked about the fiscal note, page 2, where the Historical Society, the University System and Fish, Wildlife and Parks all will have significant increases. The percentage question is still important to consider. Senator Cole asked Lee Heiman to look at the percentages versus the fixed dollar amount, to study the difference and provide information to the subcommittee.

Senator Bohlinger said the subcommittee could state in a percentage form how much the various entities would receive and allow for the 5% to flow to K-12 education. Senator Cole asked what

entities were already taken care of in the present system under the 4%. Mr. Cohn replied the current system takes in the Historical Society, State Parks and the University System. The new programs that need funding were the Cultural Trust, Mainstream, local governments and those listed in the bill text.

Senator Bohlinger asked Lee Heiman to prepare a distribution formula based on percentage to all those entities listed in the bill and state how the money would be distributed. Senator Grosfield asked for clarification whether it was a certain figure or "up to" that figure. Senator Cole said this would be combining both a fixed dollar amount and a percentage.

Senator Bohlinger noted the industry concern regarding promoting if limited to a dollar amount. If growth was experienced, the use of a percentage would make more funds available for this use. He recommended using a percentage.

Rental Cars Included: Senator Bohlinger mentioned the car rental discussion. Senator Harrington distributed an amendment which would include a 4% tax on rental vehicles that would provide a rebate of 5% for administering the collection of the tax. He said this would raise \$2.8 million dollars. Senator Grosfield clarified this meant one quarter of the money would be given to the programs listed in the bill plus expenses. Three fourths of the money would be deposited in the general fund. This would be okay if it fit into the title of the bill. He asked if this was just a tax increase for non residents as it was presumed most car rentals were from non residents.

Senator Depratu spoke to the amendment. He noted there was a major difference from four years ago where there was high license fees on rental cars with no relief. There had been a reduction on the licence tax. However, this amendment differs from the past as there are no refunds on license plates. Before, insurance replacements and loaners were excluded. The reason for this exclusion was to prevent insurance rates from going up. The rebate is important for Montanans. He commented that tourism had done very well for the state with the 4% bed tax. There is trouble in thinking government can do better.

Senator Harrington agreed there should be a reimbursement and loaners should be addressed in an amendment.

Senator Cole said Senator Mahlum should be consulted first regarding his pending legislation.

Senator Harrington discussed the various states bed tax rates. He pointed out Oregon's rate may be low but they have selective sales taxes. He agreed no one group should have to collect the tax but there are serious problems with services that must be addressed.

Major Policy Change: Senator Grosfield stated this was a major policy change, however we have seen past Sessions where sales tax efforts failed. There has been no change in support for a state wide sales tax.

Adjourned at 12:35. The next subcommittee meeting will be at 11:30 a.m. on the 15th to continue with Matthew Cohn's letter to address those concerns.

ADJOURNMENT

Adjournment: 12:35 P.M.

SEN. JOHN BOHLINGER, Chairman

DEB THOMPSON, Secretary

JB/DT

EXHIBIT (tas58bad)